

**Mark White**

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**From:** Mark White [mwhite@victoryenergyinc.com]  
**Sent:** Tuesday, March 30, 2004 8:35 AM  
**To:** Gdaniec Bob (rgdaniec@eriepower.com)  
**Cc:** Viskup John (jviskup@victoryenergyinc.com); Kang Stephen (skang@eriepower.com); Doremus George (gdoremus@eriepower.com); Levstek Dan (dlevstek@eriepower.com)  
**Subject:** EPTI License Concerns

Bob,

The enclosed is in response to your letter dated 3/26/04. Please feel free to call me should you have any questions or comments.

Best Regards,

Mark J. White

General Manager

Victory Energy Operations

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March 30, 2004

Robert Gdaniec  
Erie Power Technologies, Inc.  
5300 Knowledge Parkway  
Suite 200  
Erie, PA 16510

Subject: EPTI License Agreement Concerns  
EPTI Email of 2/26/04

Gentlemen,

We have reviewed your letter of 3/26/04 which details your concerns regarding Victory Energy Operations, LLC (VEO) compliance with the License Agreement dated January 7, 2003. In this regard, we provide the following.

1. The Agreement does provide specific geometry and characteristics but also allows for improvements, refer to Clause 13. As such, VEO has made improvements which are necessary to offer/provide a Keystone boiler that is technically compliant with our customers requirements, is inline with that of our competitors offerings and as we deem necessary to enhance our overall success.

The Oxyvinyls Project includes two (2) 15M Series Keystone boilers each of which include membrane furnace and outer walls, watercooled front and rear and an upper drum size of 60" ID. These features are outside the geometry and characteristics of the License but are clearly improvements. The furnace and outer wall construction will eliminate any CO emissions from bypassing through the unit as is the case when tangent tube construction is provided. The watercooled front and rear wall construction will reduce wall failure and long term maintenance and the larger upper drum provides an increase in storage capacity.

The Dallas Forth Worth project includes a single 15M Series Keystone boiler. The drum to drum centerline height has been increased and the boiler length shortened. EPTI was notified of such changes within the email of 12/19/04 to Bob Gdaniec and Steve Bertnatowicz a copy of which is enclosed. Most recently, VEO has issued an order to EPTI to provide a circulation study of which is on-going.

Our marketing efforts have and remain focused on the Keystone M series. The improvements are offered where VEO deems appropriate and where it becomes necessary to comply with customer specifications. VEO is not marketing custom designed Keystone boilers.



2. Agreed, however with improvements such as membrane furnace and side walls etc. the data as provided within Section P of the Keystone Design Manual is not accurate. VEO has completed necessary tube layouts, surface area calculations etc. to ensure the boiler performance reflects these improvements. Considering that VEO is a boiler designer/manufacturer we feel comfortable with the design review associated with such improvements.
3. We are not aware of any such information and will consult with our employees in this regard. If any such information is discovered, we will return it immediately.
4. To date no changes have been made without EPTI's knowledge. Any such improvement that have been made fall under Clause 13a) whereas such disclosure shall be made not earlier than six (6) months after such improvements have been introduced into commercial production. Our first such boiler system including improvements entered into operation on 3/19/04.
4. VEO is in the process of arranging a training secession. Discussions are ongoing between Jay McConaughy of VEO and Bob Gdaniec of EPTI.
5. As a part of the License Agreement, VEO has been granted the right to provide Keystone M Series boilers which include superheated steam which require improved steam purity over that of saturated units. Although it is not defined within the Annex VEO cannot provide superheated boilers without the proper details of the drum internals. We would expect EPTI's cooperation and not force VEO to purchase the equipment solely through EPTI.
- 4.a Regarding the second License Payment, an invoice was issued to VEO only after written notice was provided by VEO to EPTI that the payment was due and a proper issue submitted. Although we have received the invoice, we have withheld the payment as we have been going through various discussions relative to a possible purchase of the Keystone boiler technology up to 165,000 pph of which the 2<sup>nd</sup> payment has been part of the negotiations.
- 4.b The brochure and sales information of VEO is the sole property of VEO and disclosure is not required by the Agreement.

Photographs of the Mark will be provided for the various boilers provided.
- 4.c Semi annual reporting has been and will continue to be issued by VEO. New project opportunity disclosure is not required by the License Agreement nor will be provided.
- 4.d It was agreed by Stephen Kang that Bob Gdaniec would be replace Ted Fuhrman as the single point of contact for License related questions etc. We prefer not to change the interface at this time.



In closing, we are disappointed EPTI chose to issue such a letter rather than to contact VEO directly to discuss and resolve these issues/concerns. VEO has been successful in selling Keystone boilers of which EPTI has benefited in royalty payments. We are confident we can overcome this minor setback and look forward to moving ahead in a positive manner with EPTI.

Should you have any questions or comments regarding this letter, please do not hesitate to contact me.

Very Truly Yours,  
VICTORY ENERGY OPERATIONS

A handwritten signature in black ink, appearing to read "Mark J. White", written over the printed name.

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cc: J. Viskup

*TyP.*

